



U.S. SENATE BANKING COMMITTEE

FOR IMMEDIATE RELEASE

February 7, 2008

CONTACT: Kate Szostak

202-224-1088

Colleen Flanagan

202-224-5372

Opening Statement of Senator Dodd “Reforming the Regulation of the Government Sponsored Enterprises”

Remarks as Prepared:

The Committee will come to order. This morning’s hearing is entitled “Reforming the Regulation of the Government Sponsored Enterprises.” While this is the first meeting on this topic in the 110th Congress, I want to acknowledge that the Committee has established a substantial record on these issues which was developed through a comprehensive series of hearings organized by Senator Shelby when he was Chairman of this Committee. He has shown important leadership on this issue.

Because we have a number of members that are new to this Committee, I think it would be useful to remind people of the backdrop of these issues: A pattern of serious abuses and irregularities surfaced at Fannie Mae, Freddie Mac, and the Federal Home Loan Banks starting in 2003. These entities misstated their incomes by billions of dollars, and exhibited serious problems with their internal controls, accounting practices, and corporate governance. Today, Fannie, Freddie, and the Chicago Home Loan Bank are all still operating under regulatory agreements.

It is because of these very serious problems that we all agree that a new, world-class regulator, with broad powers like those of the banking regulators should be created to oversee the GSEs.

By the same token, we need to recognize the tremendous benefits that the GSEs have brought to the American people, to our communities, and to our economy.

For example, the widespread availability, nearly unique in the world, of a 30-year, fixed rate, prepayable mortgage is due in no small part to the existence of Fannie Mae and Freddie Mac. As a result, millions of Americans have achieved the dream of safe and stable homeownership that would have otherwise been out of their reach. This homeownership has been an engine of wealth creation for our nation, wealth that is measured in the hundreds of billions of dollars, wealth that homeowners may use to pay for a child’s college education, to finance a secure retirement, or simply to get them over a financial rough patch.

Fannie and Freddie are two of the key drivers of the housing finance system that has created this wealth. Let me be clear – I will not be the one to preside over a legislative process that dismantles this system. I will pursue GSE legislation, and I will do so aggressively, but I will not do anything that undermines the foundations of this highly beneficial system.

Ironically, we have sat through hours of hearings over the years with witnesses repeatedly raising alarm bells about the risks Fannie and Freddie pose to the financial system. Yet, today, the only part of the housing finance system where credit is still flowing is in the GSE and FHA sectors. Everywhere else, mortgage credit is either unattainable, or incredibly expensive. One financial institution after another failed to effectively manage its risks and has been forced to seek capital infusions, often from foreign governments, to cushion the losses. Many financial institutions have gone bankrupt – but only after making bad loans that have turned the American dream into a living nightmare for millions of our hardworking fellow citizens.

In short, the system is under siege, and it is the GSEs that are riding to the rescue.

I know that there are some who take a different view of the matter; many are philosophically opposed to the very existence of these entities. Former Chairman Greenspan told this Committee very frankly that he was in this camp, and that he favored privatization.

In my view, it is time to get beyond this stale ideological debate. We need to get down to the hard work of crafting a balanced bill that will create the kind of regulator we all agree is needed.

By doing so, we will ensure the public that a credible regulator is on the job, increasing confidence in our system. We will also be able to demand, as an integral part of the process, that the GSEs strengthen and deepen their commitment to affordable housing. Senator Reed has provided us a framework for doing this. I intend to work closely with him going forward.

In addition, I believe the GSEs need to do more to help subprime borrowers get out of their abusive subprime loans and into safer, more affordable and stable products. Indeed, as Fannie and Freddie successfully address their accounting and management problems, I think it would be very helpful for them to devote a portion of the surplus capital they have been required to maintain for the purchase and workout of these troubled loans. As my colleague Senator Schumer noted last week, these are the times when the GSEs must live up to their public obligations. I intend to put them to the test on this.

Before I recognize the Ranking Member, I want to reiterate that we are in agreement in many areas, and I look forward to working with him, with our colleagues on

the Committee, with our witnesses, and with other stakeholders to produce a strong, broadly balanced and effective piece of legislation.